# The Limits of Pragmatism:

# The Rise and Fall of the Brazilian Workers' Party (2002-2016)

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## Abstract

This article reviews the achievements and limitations of the federal administrations led by the *Partido dos Trabalhadores* (Brazilian Workers' Party, PT), focusing on the Party's pragmatic political and economic strategy, or its choice of what we call the 'path of least resistance'. Under favourable external circumstances, pragmatism helped to secure short-term political stability, boosted growth, and supported an unprecedented distribution of income. However, pragmatism also implied that the PT had to accommodate rather than transform the constraints to growth in Brazil, and that political stability would entail unwieldy alliances preventing deeper reforms. When it was confronted with deteriorating global economic conditions and increasingly ineffectual economic policies, the PT's accommodating strategy immobilised the party, facilitated the dissolution of its base of support, and expedited its ouster from power. The Brazilian experience suggests that political pragmatism can, within limits, support progressive economic change, but the outcomes depend heavily on the external circumstances and the stability of the political coalitions supporting the administration.

**Keywords:** Brazil, pragmatism, Workers' Party, drivers of growth, neoliberalism.

## Introduction

Global conditions were exceptionally supportive of economic development in the early 2000s, because of the combined impact of the 'great moderation' in the USA, relative prosperity in the EU, and rapid growth in China. Most low and middle-income economies benefitted from the high export prices associated with the so-called 'commodity supercycle', and from abundant inflows of capital (Saad-Filho 2013).

Those conditions facilitated the implementation of pragmatic and non-confrontational reformist policies in the administrations led by the *Partido dos Trabalhadores* (Brazilian Workers' Party – PT), that is, the pursuit of progressive outcomes through a 'path of least resistance'. This strategy included the commitment to the 'rules of the game', preserving the Constitution, and redistributing income flows at the margin through transfer programmes and improvements in the labour markets, while leaving unchallenged the (highly unequal) distribution of assets and avoiding extra-institutional mobilisation, ideological confrontation or appeals to class-based politics.

Under favourable external circumstances, the PT's path of least resistance supported an unprecedented virtuous cycle including growth, distribution and domestic political stability. However, this strategy inevitably failed to transform the system of accumulation and the long-term constraints to growth in Brazil; in the medium-term, its continuing viability depended on conditions that were either ignored or taken for granted. Their cumulative failure dissolved the traditional base of support of the PT, disabled the party at a crucial historical juncture, and facilitated the overthrow of President Dilma Rousseff, in 2016.

This argument is developed in five sections. This introduction is the first. The second reviews the 'success story' of the 2000s, through an examination of the political and economic dynamics in Brazil and the drivers of growth and distribution during that period. The article focuses on the minimum wage and the federal income transfer programmes (especially the conditional cash transfers and the expansion of public pensions and other benefits), and the relaxation of the balance-of-payments constraint to growth, because of high commodity prices and abundant international liquidity during that period. The third examines the macroeconomic limitations to the PT's strategy, focusing on the inadequacies in the Brazilian industrial structure, the deterioration of the country's insertion into the global economy, the emergence of large current account deficits, rising inflation, and the diminishing scope for distribution. Those limitations suggest that pragmatic economic strategies are intrinsically limited, and their limitations would eventually undermine the PT's sources of political support. The fourth explains the PT's continuing attachment to a pragmatic strategy even as the political and economic crises spiralled out of control. This is illustrated through four moments, starting from the failure of the 'new economic matrix' in 2011-2013; the government's disregard for the mass protests in June 2013; the economic policy turnaround after the 2014 elections and, finally, the PT's decision to follow a non-confrontational strategy even as President Dilma Rousseff was being impeached. The fifth section concludes.

## The Economic Upswing

The dominant system of accumulation and strategy of development in Brazil was transformed from import-substituting industrialisation to neoliberalism, between 1988 and 1994. This systemic change was achieved through institutional shifts and policy reforms including the liberalisation of trade, finance and capital flows, changes in labour law and the patterns of employment, and the stabilisation of the currency through the 'real plan' (named after the country's new currency; see Saad-Filho and Mollo 2001). Neoliberalism promoted a modality of accumulation based on the financialisation of production, social reproduction and the state, and much greater transnational integration of Brazilian capital through FDI, mergers and acquisitions, portfolio investment and participation in global value chains. In the new policy regime, the manipulation of interest rates became centrally important for inflation control, exchange rate stability, balance of payments equilibrium and the financing of the state.

The macroeconomic consequences of neoliberalism included markedly lower GDP growth rates, deindustrialisation and reprimarisation of the economy, higher unemployment and precarisation of labour, and a regressive shift in the distribution of income. The fragilities of this system of accumulation help to explain the 1999 exchange rate crisis and the loss of political legitimacy of neoliberalism (Arestis and Saad-Filho 2007). They also contributed directly to the election of PT candidate Luís Inácio Lula da Silva to the Presidency, in 2002. Lula's election brought high expectations for a new policy compact securing higher growth rates and lower inequality. Those outcomes were achieved, at least in part and with significant drawbacks, as is shown below.

Brazil experienced a growth surge during the Lula administrations (2003-2006, 2007-2010; see Table 1). This surge can be divided into two phases. The initial uptick was driven by the devaluation of the Real, in 1999, the global economic boom, in the early 2000s, and the expansion in Chinese demand for primary commodities. They contributed to a significant increase in the country's earnings from trade, as the volume of exports increased by 64 per cent, and prices by 24 per cent, between 2001 and 2005.[1] Export growth accounts for 43.5 per cent of the increase in aggregate demand between 2003 and 2005. This was the main factor lifting the GDP growth rate from 1.1 per cent, in 2003, to 5.8 per cent, in 2004. The global boom also brought to Brazil rising volumes of FDI and portfolio flows: net inflows were around US$15 billion in 2003 and 2004, and reached US$116 billion in 2010; they remained around US$80-100 billion per year in the following period (see Figure 1).

<TABLE 1>

<FIGURE 1>

The growth impulse due to rising exports was limited by the government's decision to maintain the neoliberal 'policy tripod' introduced by the previous administration, including contractionary fiscal and monetary policies, inflation targeting and floating exchange rates, and liberalised capital flows. Lula's commitment to economic orthodoxy was reinforced by the appointment of a prominent banker and member of the opposition *Partido da Social Democracia Brasileira* (Brazilian Social Democratic Party, PSDB) for the presidency of the Central Bank. The government also cut fiscal spending by 1 per cent of GDP, and raised the primary fiscal surplus above the target agreed with the IMF (3.75 per cent of GDP), to reach 4.2 per cent, in 2004, and 4.4 per cent, in 2005. These decisions were grounded on the PT's determination to appease the opposition, minimise capital flight and avoid confrontations with finance, industry, or other powerful groups committed to neoliberalism. Given these limitations, economic growth could resume only through a fortuitous increase in exports.

The tax revenues drawn from the growth in exports allowed the administration to expand its transfer programmes and start lifting the minimum wage, setting off a cycle of growth (Corrêa and Santos 2013). Nevertheless, the contractionary macroeconomic policies associated with the 'tripod' limited GDP growth to 3.2 per cent in 2005. This setback eventually convinced the administration that orthodox policies could not deliver sustained growth, despite the favourable external conditions.

In his second administration, Lula introduced a policy inflection including selected neodevelopmentalist initiatives in addition to the neoliberal 'tripod' (Morais and Saad-Filho 2012). Neodevelopmentalism draws upon heterodox economic traditions, especially the evolutionary, post-Keynesian and Latin American structuralist schools. This framework considers that the 'old' Latin American developmentalism, that was associated with the process of import-substituting industrialisation (ISI), ultimately failed because it did not support the internalisation of the sources of technical change. ISI was also limited by its tendency to increase the concentration of income and wealth.

Against these limitations, the emerging neodevelopmentalist tradition suggest that government policies should aim beyond the mainstream goal of monetary stability and focus, instead, on a broader set of distributive and growth-promoting fiscal, financial, monetary, exchange rate, labour and social policies (Bresser-Pereira 2005). For example, for Sicsú, Paula and Michel (2005: xxxv), the four main theses of neodevelopmentalism are that:

> (1) there is no strong market without a strong state; (2) there will be no sustained growth [...] without the strengthening of the market and the implementation of adequate macroeconomic policies; (3) strong markets and states will only be built by a national development project that conciliates growth [...] and social equity; and (4) it is not possible to [reduce] inequality without consistently high growth rates.

This policy inflection, including selected elements of neodevelopmentalism in addition to the policy 'tripod', was successful for a limited time. Approximately 21 million jobs were created in Brazil during the 2000s, of which 90 per cent paid less than 1.5 times the minimum wage, and 80 per cent were in the formal sector (Pomar 2013). Real average earnings rose 70 per cent between 2003 and 2014, while informality declined by 11 p.p. and unemployment by 3 p.p. (see Table 2). In contrast, the number of jobs paying more than 5 times the minimum wage declined sharply (Saad-Filho 2014). These developments had immediate distributional implications. For example, the wage share fell from 50 per cent of national income, in 1980, to 36 per cent in the early 2000s; it subsequently recovered to reach 50 per cent in 2011 (Pochmann 2011: 16, Pomar 2013: 42).

<TABLE 2>

Key to these progressive outcomes was a more aggressive minimum wage policy, which raised it by 27 per cent in real terms between 2006 and 2012 (see Table 2). This uplift had a considerable impact on the lower segments of the labour market, since 73 per cent of formal employees and 47 per cent of informal workers and the self-employed earned between 1 and 3 times the minimum wage in 2005 (by 2011, those numbers had risen to 79 per cent and 49 per cent).[2]

The impact of the minimum wage extends well beyond the labour market, as it often determines pensions, social security and unemployment benefits. For example, between 2002 and 2010, government transfers to households rose by almost 2 p.p. of GDP; 40 per cent of this increase can be attributed directly to the minimum wage policy (IPEA 2010: 104-109). The federal income transfer programmes also expanded significantly, with the number of beneficiaries rising from 14.5 million to 24.4 million between 1995 and 2011; social spending rose by nearly 200 per cent in real terms during this period, climbing from 11.0 to 16.2 per cent of GDP (Saad-Filho 2015).

The growth of aggregate demand was also fuelled by personal debt, which increased from 18 per cent of disposable income, in January 2005, to 42 per cent, in December 2011 (BCB 2016). Credit growth was due both to higher debt for households that were already included in the financial sector, and the extension of loans to new consumers. For example, the share of households earning up to 3 minimum wages with at least one credit card increased from 15 to 25 per cent between 2005 and 2010; for those with incomes between 3 and 5 minimum wages, card use rose from 30 to 43 per cent (Lavinas 2015).

The government also capitalised the Brazilian development bank, BNDES, which provided loans and other financial support especially to large domestic firms ('national champions'). Those included Itaú and Bradesco (banking), Embraer (aviation), Odebrecht (construction), Vale (mining), Inbev (beverages), Gerdau (steel) and Friboi and Brazil Foods (processed foods) (Boito Jr 2012). In 2007, the federal government launched a 'growth acceleration programme' focusing on investments in infrastructure, followed by a large housing programme. It also provided additional funding for education, health and other public services, and expanded the civil service, aiming to recover policy-making capacity and reduce subcontracting.

Rising public expenditures, transfers and investment had no adverse macroeconomic implications. They were funded almost entirely by the additional tax revenues and social security contributions due to faster growth, the expansion and formalisation of employment, and rising exports. The average primary fiscal surplus fell only marginally between 2003 and 2008, when it reached 2.3 per cent of GDP, while the domestic public debt declined from 55 per cent of GDP, in 2002, to 40 per cent in 2010 (Morais and Saad-Filho 2012).

Higher minimum wages and transfers, credit, fiscal activism and booming exports sustained a virtuous circle of growth and distribution that drove an unprecedented reduction in poverty and inequality during the PT administrations. Brazil had 60 million poor people in 1993 (41 per cent of the population), and the same number in 2003 (35 per cent). Poverty fell rapidly, to under 30 million people (15 per cent of the population) in 2012.[3] In turn, the Gini coefficient of household per capita income, which hovered under 0.60 between the mid-1970s and 2001, declined to 0.53 in 2012. Approximately 55 per cent of its decline was due to labour market improvements, 22 per cent to state pensions, and 17 per cent to other income transfer programmes, such as the conditional cash transfer scheme *Programa Bolsa Famíla* (Family Benefit Programme, PBF) (Hoffmann 2013). However, tax returns data suggest higher inequality than the household surveys, smaller distributional improvements, and stability in the top incomes. For example, the top 0.1 per cent appropriated around 10 per cent of national income in the entire period between 2006 and 2011, while the top 1 per cent captured 25 per cent of national income. The combination of tax returns with household surveys suggests that the Gini coefficient of household per capita income remained stable around 0.69 between 2006 and 2012, largely because of the contribution of capital-related income sources (mainly profits and interest), which, in Brazil, are not subject to taxation (Gobetti and Orair 2016a, 2016b, Medeiros, Souza, and Castro 2015a, 2015b).

In other words, during the PT administrations there was redistribution of income through expanded access to public pensions, conditional cash transfers and more equal earnings in the labour market, while the profound inequalities in capital income were preserved. As the incomes of the poorest rose, poverty declined, and wages became less unequal; in the meantime, the rich preserved their income share. This implies that, first, the process of distribution of income through wages and transfers would inevitably be limited. Second, the middle class would be squeezed by the ability of the rich to maintain their position, the improvement in the lot of the poor, and the scarcity of well-paid jobs. Third, distributional improvements would raise costs in the urban services sector, which is labour-intensive and where most low-wage employment is concentrated, triggering inflationary pressures affecting disproportionately the middle class, as a heavy net buyer of those services.

The internalisation of the sources of growth during Lula's administration can be explained by the macroeconomic policy change implemented in 2006, and the deterioration of Brazil's current account in the wake of the global economic crisis starting in 2008. Between 2006 and 2011, exports contributed only 5.6 per cent of GDP growth (an average of 0.2 points per year). Their role was dwarfed by government consumption (11.8 per cent, or 0.5 points), private investment (23.3 per cent, or 1.0 points) and, especially, private consumption (59.2 per cent of growth, or 2.6 points per year) (see Table 1 and Santos et al. 2012 and Santos, Modenesi, et al. 2016). The volatility and limited influence of investment helps to explain why the Brazilian growth spurt never became a sustained cycle of accumulation. Finally, even though exports and capital inflows did not influence growth very significantly, they helped to displace the balance-of-payments constraint: Brazil's foreign currency reserves rose from US$54 billion, in 2005, to US$379 billion, in 2012, or from 6.1 to 16.8 per cent of GDP (BCB 2016).

In summary, the growth process under Lula was driven initially by exports and, subsequently, by public policies that lifted the lowest incomes, especially rising minimum wages and transfer programmes, supported by personal credit; in contrast, exports gradually lost relevance, and government spending and autonomous private investment were always secondary. Faster growth increased the demand for low-skilled labour, further lifting incomes through labour scarcities and the formalisation of labour, and reinforcing the links between growth and distribution (Rugitsky 2016). High commodity prices and abundant international liquidity alleviated the balance-of-payments constraint to growth, as the trade balance remained positive for most of the period, and there were no currency crises. Finally, the appreciation of the domestic currency helped to reduce inflation. In other words, the Lula administration delivered growth and distribution through a limited and non-confrontational set of income-based policies that, under favourable external conditions, could be sustained by market processes. However, private investment failed to pick up, no significant transformations took place in the productive structure, public investment was insufficient to modernise the country's infrastructure, and there was no attempt to address the inequalities in the distribution of assets, or even to tax the highest incomes.

Throughout this period, the political opposition to the PT was led by the PSDB, which had occupied the government between 1994 and 2002. The PSDB gradually lost much of its support because of its track record including questionable privatisations, low employment creation, extensive informalisation of labour and the mishandling of the currency in the late 1990s, leading the party to become associated with the exchange rate crisis of 1999 (see Saad-Filho and Mollo 2001). In contrast, the PT managed to put together a large coalition including important fractions of capital and the country's largest trade unions and social movements (Boito Jr and Saad-Filho 2016). Nevertheless, the fragmentation of the political system, especially in Congress, permanently impaired the PT administrations, since the party never came close to a majority either in the Chamber of Deputies or in the Senate (the PT and its reliable allies never controlled more than one-third of seats; see Albuquerque 2016). In these circumstances, it became essential to cultivate alliances with assorted political parties that controlled around 40 per cent of seats in Congress. Ultimately, the decision to manage these alliances, instead of seeking to mobilise extra-parliamentary forces in order to transform the political system, would become a decisive factor in the downfall of the PT's administrations.

## The Limits of Pragmatism

Lula's approval ratings hit record levels as the economy expanded rapidly, at least in comparison to the semi-stagnation in the previous two decades, and the condition of the poor improved. He was not only re-elected in 2006, but also secured the election of his chosen successor, in 2010: Dilma Rousseff, his former Minister of Mining and Energy and, later, Chief of Staff. However, the limitations of the PT's pragmatic policies would soon block further gains in growth and distribution; eventually, those limitations would destroy Rousseff's administration.

Brazil's manufacturing sector began to contract in the early 1980s. By the mid-1990s, the country showed signs of deindustrialisation due to persistently high interest rates, continuing currency overvaluation and incoherent industrial policies (Nassif, Feijó, and Araújo 2015). Mining and agribusiness expanded at the same time, leading to the reprimarisation of the economy, accompanied by declining competitiveness, sluggish GDP growth, and a deteriorating pattern of employment. These developments also created structural supply problems and made export income highly dependent on global commodity prices.

The country's current account and trade surpluses peaked in 2006, at US$13 billion and US$45 billion, respectively, but they deteriorated steadily afterwards. A solvency problem was avoided only because the country received unprecedented inflows of foreign capital, partly because of the fortuitous programmes of quantitative easing in the USA, UK, EU and Japan. Although Brazil's trade in goods remained in surplus until 2013, the growth in export revenues after 2006 was almost entirely due to increases in the prices of its exportables, , as the volume of goods sold remained stationary. In contrast, the volumes of imports almost doubled. Inevitably, the country's current account deteriorated since 2007, reaching a deficit of US$100 billion in 2014 (4.3 per cent of GDP). The deficit decreased only in 2015, as the Brazilian currency declined in value, and the economy collapsed into its worst ever crisis.

The persistent overvaluation of the Brazilian real derived from the key role of the exchange rate in the neoliberal strategy of inflation control and international integration, which had been imposed in the early 1990s. This strategy was maintained by the PT governments. The average exchange rate appreciated from R$3.08 per dollar, in 2003, to only R$1.67 per dollar, in 2011. The real later declined to R$2.25 per dollar in 2013. However, this depreciation raised import prices in the domestic market, that led the rate of inflation to break through the 'ceiling' of the Central Bank's target range of 2.5-6.5 per cent per annum (Braga 2015; Giovannetti and Carvalho 2015; Santos, Amitrano, et al. 2016). At that point, the government's strategy reached an impasse: continuing attempts to control inflation through high interest rates and an overvalued exchange rate would raise the current account deficit and worsen the economic slowdown. In contrast, containing wages and transfers in order to cut aggregate demand would stall both growth and redistribution. The government opted, instead, for subsidies and administrative price controls, despite their limited effectiveness and high fiscal costs.

It can be concluded that the growth spurt under the PT administrations was based on the expansion of domestic demand. However, domestic demand-led growth accompanied by low investment and lagging productivity growth created unsustainable pressures on the balance of payments. Given the continuing global crisis, Brazil's export earnings were limited both in terms of quantity and in terms of its prices. These limitations could be addressed, in part, by a devaluation of the currency, but this would raise inflation, which was already under pressure because of the mounting cost of domestic services. In contrast, contractionary macroeconomic policies would stall the PT's model of growth and endanger the government's political standing. Finally, both consumption and investment were constrained by the high level of the interest rates (which fostered speculation and the overvaluation of the currency), the hollowing out of the manufacturing base (which compromised the balance of payments and created undesirable employment patterns), and by tight fiscal rules and the financial restraints imposed upon the state-owned enterprises (SOEs, which were consequently prevented from investing to improve the quality of urban life). Given these limitations, the economy could sustain growth only through an external impulse (unlikely, given the global crisis) or a boom in private investment (which was even more improbable).

## The Fall of President Dilma Rousseff in Four Movements

### *First Movement: The Failure of the 'New Economic Matrix'*

Dilma Rousseff became President in January 2011. Her administration was committed to faster growth and distribution based on a stronger neodevelopmentalist agenda, but without abandoning the 'tripod'. Her government introduced a 'new economic matrix' aiming to support private investment through a better alignment of monetary and exchange rate policies with the country's industrial policy. This was expected to boost the economy's productivity by supporting the expansion of infrastructure and other key economic sectors, lowering production costs, and accelerating the development of strategic production chains, especially around oil and other essential inputs. In doing this, the government was hoping to limit the country's rising current account deficit. Real interest rates were cut to their lowest level in two decades, and the administration offered generous tax rebates to stimulate production and reduce inflation. They also strong-armed the private operators into reducing electricity prices, reduced national insurance contributions and other labour costs, and capitalised the Brazilian Development Bank (BNDES), that became the largest development bank in the world. Finally, the government sought to attract private investment into infrastructure through public-private partnerships (PPPs) offering highly advantageous conditions for the investors.

Despite these policies and incentives, private investment remained stubbornly low and never became the main driver of economic growth. Persistently low investment and the government's increasingly contractionary fiscal policy reduced the GDP growth rate from 7.5 per cent, in 2010, to only 1.9, in 2012 (Carvalho and Rugitsky 2015, Serrano and Summa 2015). In this period, the subsidies cost 0.2 per cent of GDP, rising by another 0.5 per cent by 2015, while public investment fell by 0.5 per cent of GDP, and the primary fiscal surplus rose by 1.1 per cent of GDP.

Fiscal austerity was justified by the need to gain 'credibility' in order to lure private investment, and by the need to compensate the (expected) expansionary impact of the reduction in interest rates. However, since the multiplier effect of public investment is much higher than the expansionary impact of the subsidies (that is, economic activity responds much more strongly to additional government investment than to the subsidisation of private economic activity), the net effect of the government's policies was sharply contractionary (Orair, Siqueira, and Gobetti 2016: 17). Finally, the external sector failed to recover despite the devaluation of the real, because of the continuing global turbulence, the crisis in the Eurozone, and the depression in international commodity prices.

Falling growth rates and rising inflation increasingly undermined the government's political legitimacy. Recognising the failure of its attempt to reduce interest rates, the Central Bank resumed its commitment to the neoliberal policy tripod, and interest rates started rising again in 2013. At the same time, the Ministry of Finance announced further restrictions in public spending, which compounded the country's economic decline. Even though Brazil's neodevelopmentalist experience was closed, there were still profits to be made: Eike Batista, who was one of Brazil's wealthiest entrepreneurs before his spectacular downfall in 2017, gloated that the PPPs offered business a 'happiness kit' (Alves 2012). The 'new economic matrix' was so closely aligned with the demands of domestic capital that it was even called the 'FIESP [Industrial Federation of the State of São Paulo] agenda', after the economic programme of the country's most powerful business organisation (FIESP et al. 2011, see also Singer 2015).

Even though the 'FIESP agenda' expressed the demands of important fractions of capital, it did not support a consistent economic policy. It brought large fiscal costs through the provision of a plethora of subsidies, without any conditions attached either in terms of investments or performance. Quite the contrary: inflation rose, the current account deficit increased, private investment fell, and GDP growth tumbled. Shockingly, many businesspeople started complaining about 'excessive' state intervention and 'lack of access' to a government that was doggedly following capital's own programme. As the economy increasingly ground to a halt, the government shifted more and more frantically towards the economic orthodoxy, aiming to bring large capital back on board. However, orthodox neoliberal policies led aggregate demand, employment growth and distribution to stall which, in turn, eroded the PT's base of support among the workers and the poor. The win-win class conciliation scenario of the 2000s could no longer be maintained. Under these adverse circumstances, the pursuit of political pragmatism fed economic decline and led the government into a growing political isolation.

## *Second Movement: Snubbing the Streets*

On 6 June 2013, the radical left Free Fare Movement (*Movimento Passe Livre*, MPL) led a small demonstration demanding the reversal of a public transport fare increase in São Paulo. The demonstration was attacked by the police, and several arrests were made. The MPL returned in the following days, and the police responded brutally, beating demonstrators and passers-by. The movement escalated and spread nationwide, leading to the largest protests in Brazil for a generation (Moraes et al. 2014, Saad-Filho 2013, Saad-Filho and Morais 2014, Singer 2014).

The protestors, including students, left-wing activists, organised professional categories, informal workers, neighbourhood associations, and fractions of the upper middle class, expressed a wide range of (often contradictory) demands across public service provision, especially transport, health and education, and broader issues of governance, focusing on corruption, taxation, privatisation and the administration of justice.[4]

The PT could have responded creatively to those demands, channelling them selectively into the government's own agenda. However, this became impossible under the party's pragmatic strategy for two reasons. First, faltering economic performance had reduced state capacity to reconcile interests through public spending, especially around investment in urban infrastructure, where transformative projects have high costs, long lags, intractable environmental implications and uncertain political rewards. Second, the PT was politically exhausted, as it struggled to maintain a working majority in Congress through increasingly unstable alliances and incoherent deals with controversial politicians. The party's acrobatics during this period did untold damage to the government's reputation and its mass support.

Instead of recognising the rapidly shifting political atmosphere in the country, the PT persisted with its pragmatic approach to 'politics as usual'. At the tail end of the demonstrations, the government proposed a reform of the Constitution to fix Brazil's dysfunctional political system. When the idea was summarily shot down by an emboldened opposition, including some of the government's erstwhile allies, Dilma Rousseff was immobilised. In the meantime, the PT and its mass organisations were unable to channel the demonstrations towards progressive ends. This failure marked their disconnection from the majority of the population, the end of the PT's political hegemony, and the terminal paralysis of Rousseff's administration. The PT was no longer a transformative political force, and the government was now a sitting duck.

### *Third Movement: The Political Turnaround*

Dilma Rousseff was elected President in 2010, with a 56-44 per cent majority against the PSDB opposition candidate. She was re-elected in 2014 with a diminished but convincing majority of 52-48 per cent, a difference of 3.5 million votes. However, Dilma's triumph coincided with the rapid deterioration of the economy. GDP growth rates, which had been declining since 2010, reached zero that year, and the distributional improvements that had legitimised the PT administrations had ceased. Economic growth in the previous years, and insufficient investment in infrastructure because of fiscal and other constraints, triggered mounting demands and a feeling of deterioration in public service provision, symbolised by the transport crisis, in 2013, and the scarcity of water and the rising electricity costs in 2014-15.

During the 2014 electoral campaign the PT moved sharply to the left, claiming that the PSDB would impose harsh neoliberal policies, overturn labour rights, and reverse the social and economic achievements of the previous administrations. In contrast, the PT offered faster growth and continuing improvements in wages, benefits, employment and social rights.

That 'left turn' was merely rhetorical. Having won the election, and facing a rabidly hostile media and the most right-wing Congress in decades, the PT reverted to pragmatism, and desperately sought to placate the opposition. Rousseff dismissed the long-serving neodevelopmentalist Minister of Finance Guido Mantega, and appointed Joaquim Levy, a neoliberal banker chosen by Bradesco, one of the country's largest financial conglomerates. He was tasked with implementing a harsh austerity programme to reduce the fiscal deficit, restore the government's 'credibility' and kick-start the elusive cycle of growth led by private investment. Public spending, investment and services were cut, followed by unemployment benefits and pensions, just as the PT suggested the opposition would have done if the PSDB had won the election.

Despite this turnaround, Dilma and the PT were unable to secure the support of capital or the upper middle class, or stem the vitriolic attacks of the mainstream media; yet, they fatally alienated their own base of support in the formal and informal working class and the social movements, as the fiscal cuts bit and the economy tailspinned because of the lack of demand. It was impossible for the government to cut its way to growth, and their policies were insufficient to secure the support of any major constituency: each concession was met by bitter opposition and escalating demands. At that stage, political pragmatism and attempts to do 'deals' with the opposition had become counter-productive. With each round of cuts and concessions, more allies were lost. The haemorrhage had become uncontrollable.

*Fourth Movement: The Coup d'État*

The right-wing opposition to the PT had been rudderless for years. The PSDB had neither plausible ideas nor a positive reputation, since its policies were directly responsible for the 1999 economic crisis, and the other political parties were largely devoid of ideology; they were mainly tools to capture public resources. In the mid-2000s, the situation became so desperate that the mainstream media openly took the mantle of opposition, driving the anti-PT agenda (Farah 2010, LEMEP 2016).

Corruption was the ideal pretext to destroy the PT. During the 1990s, the PT had thrived in opposition, presenting itself as the only honest party in Brazil. This strategy worked, but it contained a lethal contradiction: in order to win expensive elections with a moderate platform, manage local governments and sustain a majority in the legislature, through sprawling coalitions underpinned by case-by-case deals, the PT would *have* to get its hands dirty. Yet the party succeeded for several years, winning elections at all levels. As the PT prospered and federal power came within its grasp, the party became increasingly concerned with 'governance' and 'stability', and started to avoid confrontations with current, prospective, potential or necessary allies, which implied the abandonment of earlier commitments to reform campaign finance, the media and electoral law, increase the influence of the workers in their place of employment, and democratise the SOEs.

In 2005, Lula's administration was severely destabilised by the *mensalão* scandal, which derived from unproven allegations that the government was paying members of Congress a monthly stipend in exchange for their votes. In 2014, the *Lava Jato* (carwash) scandal unveiled an extraordinary tale of bribery, plunder of public assets and funding for all major political parties, drawing upon the state oil company Petrobras and its suppliers in the oil, shipbuilding and construction industries. Several politicians and many of Brazil's wealthiest businessmen were imprisoned; their plea bargains ensnared others, in a never-ending cycle of political destruction targeting primarily the PT.

In the meantime, the opposition started proceedings to impeach President Rousseff because of alleged irregularities in government spending (no personal gain was suggested). The PT and other left parties and social movements denounced the impeachment as a coup, given the insignificance of the accusations: at best, they hinged on a technicality; at worst, they would implicate most state governors as well as Dilma's predecessors. In the melee, the economic crisis, rising unemployment, gargantuan corruption and a torrent of political scandals became completely enmeshed, while the mainstream media trumpeted daily that the PT was at the centre of a web of thievery without precedent, with Lula and Dilma robbing the Republic during the day while, at night, they conspired to turn Brazil into a satellite of Venezuela.

Despite the mounting threats, the PT and the left reacted weakly and excruciatingly slowly. Most social movements had been captured by the PT administrations or demobilised as part of the PT's effort to win elections and govern by the rules; the far left remained small and scattered and, since it had always defined itself in opposition to the PT, found it difficult to support Dilma Rousseff. Finally, the upper middle class and the media had become implacably hostile to the left since 2013, making it harder to mobilise the population to support Dilma's democratic mandate.

At certain moments it appeared that the PT might wake up to the imperative of mass resistance. For example, after he was spectacularly questioned as part of the *Lava Jato* investigations, in March 2016, former President Lula said that PT must stand up and confront the coup in the streets, and he would travel around the country doing just that. Yet Lula immediately retreated into secretive conversations with fellow politicians, and would rarely be seen in public. Dilma Rousseff also refused to take part in demonstrations supporting her own mandate, allegedly to avoid being associated with 'radicals' (Dias 2016). It soon became apparent that the PT would not fight even against a judicial-parliamentary *coup d'état* aiming to eject it from power and, eventually, dismantle the party itself. The outcome was inevitable: Dilma Rousseff was removed from office on 31 August 2016 and, in the local elections in October, the PT suffered a crushing defeat.

## Conclusion

The coup against President Dilma Rousseff was the culmination of the deepest crisis in Brazil in fifty years. The economy offers a picture of utter desolation. The country's GDP stagnated in 2014, contracted by 3.8 per cent in 2015, and slumped again in 2016, wrecking the gains achieved under the PT. The fiscal deficit remains uncontrolled, unemployment has reached double digits and continues to mount, and several 'national champions' have virtually collapsed. The Constitution is in shreds. Most political leaders and their parties are implicated in a never-ending array of scandals, Congress is demoralised, the media tries to rule the country, the judicial system is dangerously over-reaching as it, too, tries to become the dominant power in the Republic, and the institutions of the state are severely disorganised. Policymaking has become erratic.

This legal, political and economic turmoil suggests that, first, given the PT's determination to pursue the pragmatic path of least resistance, its achievements depended strictly on a favourable global economic environment. Second, when the PT pushed for more heterodox policies, it achieved short-term successes but its efforts were hampered by the country's external dependence, the party's residual attachment to neoliberalism, and its reluctance to push for a transformation of the political system. Third, pragmatism disarmed the PT against the unremitting opposition of the media, the neoliberal interests and the upper middle class. It is, then, apparent that more significant achievements in growth, poverty alleviation and distribution, and the recomposition of the country's economic fabric, required more ambitious policy changes supporting a break with the limitations imposed by neoliberalism. These policies could include the abolition of the neoliberal 'policy tripod', lower interest rates and exchange rates, more aggressive industrial, financial and capital account policies, the restoration of key production chains, especially in medium and high-technology sectors producing tradables, large investments in infrastructure and public goods and services, and greater improvements in the labour market (Barbosa Filho 2015; Barboza 2015). In turn, the distribution of income and assets would require a comprehensive reform of property and taxation addressing the structural inequalities between rich and poor, and between capital and labour.

Instead of recognising the limits of pragmatism, the PT chose to ignore them and stick to the path of least resistance on the economic, social and political domains. There was no meaningful attempt to reform the Constitution, the state or the political system, or transform the country's economic structure or its pattern of international integration, even under unprecedentedly favourable conditions including mass support, rapid growth, distributional improvements and balance of payments stability. The PT governments introduced no new economic rights, and even the party's flagship cash transfer programme, PBF, remains vulnerable. Instead, the PT administrations limited their aspirations to the 'reformism lite' permitted by their unwieldy alliances at the top. This worked well while circumstances were favourable. However, the scope for compromise solutions where (almost) everyone won eventually fizzled out.

In examining the paths not taken by the PT, timing is of the essence. Once the PT had committed itself to playing by the rules, it was bound to pursue a non-confrontational approach both in order to win the 2002 elections and, initially, when in power. However, as the party achieved increasing successes and Lula's popularity soared, the political space was created to reform the political system, media ownership, the distribution of assets and the economic structure. Popular mobilisations around these demands could have cemented the party's mass base of support. Inevitably, they would also have attracted the wrath of powerful interests but, at least, in this case the PT would have had the wherewithal to fight for what it had traditionally stood for. Instead, the PT chose to trap itself into a corner and watch as its supporters, by and large, failed to come to the rescue in the party's hour of need.

Instead, as it failed to recognise the changes in the external and the domestic environment, the Rousseff administration adopted increasingly erratic policies. Initially, it doubled its bets on neodevelopmentalism. When they seemed to fail, the government intervened randomly, offering subsidies, PPP deals and lower taxes and energy prices, to no avail. Private investment tapered off, the public finances deteriorated, inflation crept up and GDP growth sagged. The PT then turned towards neoliberalism, abandoning its previous achievements and overseeing the demolition of its own political base of support. At every step, and regardless of the mounting wrath of the opposition, the PT remained wedded to a pragmatic and non-confrontational strategy.

The PT was not destroyed for being too leftist. Instead, its administration imploded because of the party's attachment to pragmatism even when it had become counterproductive, and because of their attempt to keep triangulating towards a political centre that was collapsing into the far right. After the opposition chose the route of intransigence and conflict, and with the media and the judiciary in hot pursuit, no amount of concessions at the top could have kept the PT in power. Yet the party refused to consider the possibility of confrontation. The implementation of neoliberal austerity policies after the 2014 elections, in flagrant contradiction with its campaign promises, destroyed the credibility of the PT, and left the party vulnerable to attack under the pretexts of corruption, conspiracy to subvert the Constitution, financial malfeasance, and much else. The PT lost its supporters, and did not gain any allies. Pragmatism had run its course.

The experience of the PT suggests that transformative projects in Brazil are bound to face escalating resistance. Their form, effectiveness, and impact on the alliances supporting the administration will tend to fluctuate, depending on the government's response and the global environment, making it difficult to plan reformist strategies in detail. However, it is clear that the efficacy of pragmatism is limited, and that the cultivation of ever-widening circles of increasingly unreliable allies can foster instability and political paralysis. Instead, the class, political and institutional sources of power must be targeted clearly, openly, and rapidly, in order to mobilise the groups with the most to gain, especially the urban poor. The PT failed to do this; the party lost and it has been heavily damaged. It is unlikely that the PT itself will cease to exist, given its deep roots in Brazilian society, but its role as a force for progressive change has been severely curtailed. Brazil will pay a heavy price for the PT's flawed political strategy for many years to come.

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**Endnotes:**

[1] All macroeconomic and exchange rate data are from: www.ipeadata.gov.br.

[2] Source: PNAD/IBGE.

[3] The income of the poor in Brazil grew 2.5 times faster than that of the non-poor during this period, in a modestly pro-poor growth pattern. This is less than in other Latin American countries with left-of-centre governments. Using the international US$ 2.50/day poverty line, Argentina had a much higher pro-poor growth indicator of 5.5, Bolivia of 6.2, and Ecuador of 7.3 between 2007 and 2011 (CEDLAS and The World Bank 2016).

[4] Those demands are reviewed in G1 (2013).